1975 ANNUAL REPORT

OPI LTD.

O P I LTD.

(Formerly Oil Patch Industries Ltd.)

ANNUAL REPORT

SEPTEMBER, 1975

Directors

Perry S. Bower*	Winnipeg, Manitoba
Lloyd C. Garries	Edmonton, Alberta
F. Newton Hughes	Edmonton, Alberta
Maclean E. Jones, Q.C.	Calgary, Alberta
Barron Kidd*	Dallas, Texas
Barron U. Kidd	Dallas, Texas
V. J. Moroney*	Calgary, Alberta
J. D. McLaughlin	Midland, Texas

* Member of Audit Committee.

Officers

Chairman	Barron Kidd
President, Chief Executive Officer	F. N. Hughes
Vice-President	L. C. Garries
Vice-President — Finance and Secretary	L. F. Swonek

Head Office

5105 - 75 Street, Edmonton, Alberta

Transfer Agent and Registrar

Guaranty Trust Company of Canada

Exchange Listing

Toronto Stock Exchange

Bank

Royal Bank of Canada

Auditors

Thorne Riddell & Co., Edmonton, Alberta

Annual Meeting

January 17th, 1976 at 11:30 o'clock
Chateau Lacombe
Edmonton, Alberta

OPI LTD. AND SUBSIDIARY COMPANIES

TO THE SHAREHOLDERS

Your Board of Directors respectfully submits the following annual report for the year ended September 30, 1975, together with the financial statements and auditors' report dated December 16, 1975.

The volume in the year ended September 30, 1975 was $9,272,000 as against $8,333,000 in the previous year. Earnings from operations were $391,000 or 35¢ per share as compared with $467,000, or 44¢ per share last year. The year 1975 has again been affected by political interference in Canada and to some minor extent in the United States. In Canada various political decisions resulted in a further slow down in drilling, particularly in the area of deep wells which are so important to us. As a result we did not obtain the volume figures that we had expected in Canada and our profit margin was even more drastically affected. The change in depletion allowances in the U.S.A. in the early spring led to a feeling of indecision for about a two month period which had some effect on our business but fortunately this was short lived.

At the present time, activity in the United States is at a very healthy level and we expect our volume and earnings there to be satisfactory this coming year. The situation in Canada, although nothing has really changed as yet, looks more encouraging than it has for the past two years. Our customers, the exploration and production companies, are planning considerably larger drilling programs than they had last year. Fortunately, we are now obtaining about 60% of our business in the United States and are therefore less dependent on Canadian political decisions. On balance we are optimistic about the coming year.

OPERATIONS

Rental Division

Due to a slow down in Canadian exploration, our volume was about 25% less than we had expected. We gradually reduced our costs in line with the declining volume but there was an unavoidable time lag. The results for this Division and for Cougar in Canada were largely responsible for the unsatisfactory profit results for the year. The rental division in Wyoming is now well established after experiencing some development setbacks and delays. With the activity we now have developed in Wyoming and the brighter picture in Canada, we should be able to obtain a reasonable return on our investment in this Division in the coming year.

Cougar Tool Division

In the United States this Division continued to expand and it is now doing the bulk of its business in the Rocky Mountain Area, Texas, Oklahoma and Alaska. The Canadian branch was affected by the slow down in Canada, but like the Rental Division, the expected increase in drilling in Canada should improve its position. The Division continues to do a considerable amount of research and development in their present range of tools and on new tools.

Gist Pump Division

The Gist Pump Division was the main contributor to our increase in volume and was responsible for a substantial portion of our profit. It now has a much broader market penetration and continues to do research on both improving their present products and developing new products for the future. Its order book is very healthy going into the new year and we expect another worthwhile increase in business.

Pembina Meter Division

Being more production rather than drilling oriented, it was not adversely affected by conditions in Canada. With the addition of new lines and continued aggressiveness, it was able to increase its business substantially over the previous year. We expect that these gains will continue in the coming year.

Centralizer and Scratcher Division

Although this Division is relatively small in the overall picture, it was one of the bright spots during the year. It has now attained a level of activity beyond what we thought would be possible and still continues to make gains.

O P I Production Division

The Odessa plant operated at a high level for the bulk of the year and is in a position to exceed this volume in the coming year. The Edmonton plant did not obtain as much outside work as had been expected but volume was picking up at the year end. With the expected increase in oilfield activity in Canada, the coming year should be quite satisfactory.

THE FUTURE

The past year has been a very difficult one, due in the main to political uncertainty. However, your company's operations have changed radically in the past three years and we would like to draw your attention to these changes. We are no longer dependent on one small market in Alberta and our range of services is now much broader than it was. We now have achieved the broader market and product diversification that was necessary but it did require the retention of all of our earnings and a substantial increase in our long-term debt and short-term borrowings. Although a substantial portion of our cash flow will still be required for upgrading fixed assets, it is expected that funds will be available to reduce our short-term loans. Your Directors are very conscious of the fact that the shareholders have not received any return on their investment and will now look to building your company's working capital position to such a level that dividends may be considered.

Subsequent to the end of our fiscal year, Mr. L. F. Swonek, a former Edmonton partner of Thorne Riddell & Co. joined us as Vice-President — Finance and Secretary. Mr. Swonek brings to the company several years of financial experience in both public practice and industry.

The past year has been a difficult one for our people but they have come through it very well and on your behalf the Directors would like to thank them and wish them well for the coming year.

F. Newton Hughes
President and Chief Executive Officer.

December 16, 1975.

O P I LTD. AND SUBSIDIARY COMPANIES

FIVE YEAR REVIEW

	1975	1974	1973	1972	1971
FINANCIAL RESULTS — Note					
Revenue	$ 9,272,000	$8,333,000	$5,879,000	$3,768,000	$2,279,000
Earnings from operations	391,000	467,000	335,000	247,000	13,000
Net earnings	391,000	494,000	370,000	247,000	13,000
Depreciation and amortization	883,000	788,000	708,000	479,000	448,000
Cash generated from operations	1,354,000	1,484,000	1,132,000	757,000	500,000
YEAR END POSITION — Note					
Working Capital	$ 1,683,000	$1,317,000	$1,285,000	$ (54,000)	$ 689,000
Fixed assets — net	5,438,000	5,357,000	4,183,000	3,293,000	2,251,000
Total assets	10,288,000	9,759,000	7,619,000	5,560,000	3,669,000
Long-term debt	2,047,000	2,035,000	2,037,000	234,000	176,000
Shareholders' equity	4,506,000	4,115,000	3,162,000	2,754,000	2,507,000
STATISTICS PER COMMON SHARE — Note					
Earnings from operations	$ .35	$ .44	$ .36	$ .27	$ .01
Net earnings	.35	.46	.40	.27	.01
Cash flow from operations	1.23	1.34	1.22	.83	.54
Shareholders' equity	4.09	3.73	3.43	3.02	2.75

NOTE: The accounts of Pembina Meter Services Ltd. and O P I Inc. (formerly Gist Oil Tools, Inc.) are reflected in the review from date of acquisition, being 1973 and 1974 respectively.

OPI LTD. AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF EARNINGS AND RETAINED EARNINGS
FOR THE YEAR ENDED SEPTEMBER 30, 1975

	1975	1974
REVENUE	$9,272,000	$8,333,000
COSTS AND EXPENSES		
Cost of sales and other expenses	7,345,000	6,333,000
Interest on long-term debt	290,000	268,000
Other interest	175,000	87,000
Depreciation and amortization	883,000	788,000
	8,693,000	7,476,000
Operating Profit	579,000	857,000
INCOME TAXES		
Current	154,000	152,000
Deferred	34,000	238,000
	188,000	390,000
Earnings before extraordinary item	391,000	467,000
Extraordinary item		
Gain on sale of property	—	27,000
NET EARNINGS	391,000	494,000
Retained earnings at beginning of year	2,002,000	1,508,000
RETAINED EARNINGS AT END OF YEAR	$2,393,000	$2,002,000
EARNINGS PER SHARE		
Earnings before extraordinary item	35¢	44¢
Extraordinary item	—	2¢
Net earnings	35¢	46¢

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE YEAR ENDED SEPTEMBER 30, 1975

	1975	1974
SOURCE OF FUNDS		
From operations, adjusted for non-fund items	$1,354,000	$1,484,000
Sale of property, plant and equipment	537,000	671,000
Issuance of capital stock	—	459,000
Long-term borrowings	480,000	330,000
	2,371,000	2,944,000
APPLICATION OF FUNDS		
Purchase of property, plant and equipment	1,537,000	2,580,000
Reduction of long-term debt	468,000	332,000
	2,005,000	2,912,000
INCREASE IN WORKING CAPITAL	366,000	32,000
Working capital at beginning of year	1,317,000	1,285,000
WORKING CAPITAL AT END OF YEAR	$1,683,000	$1,317,000
REPRESENTED BY		
Current assets	$4,549,000	$4,091,000
Current liabilities	2,866,000	2,774,000
	$1,683,000	$1,317,000

CONSOLIDATED BALANCE SHEET AS AT SEPTEMBER 30, 1975

ASSETS

	1975	1974
CURRENT ASSETS		
Accounts receivable	$1,928,000	$2,010,000
Income taxes recoverable	130,000	153,000
Inventories		
Raw materials	667,000	466,000
Work-in-process	194,000	136,000
Finished goods	1,567,000	1,259,000
Prepaid expenses	63,000	67,000
	4,549,000	4,091,000
PROPERTY, PLANT AND EQUIPMENT (Note 3)	5,438,000	5,357,000
OTHER ASSETS, at cost net of amounts amortized	301,000	311,000
	$10,288,000	$9,759,000

Signed on behalf of the Board

F. N. HUGHES
Director

L. C. GARRIES
Director

AND SUBSIDIARY COMPANIES

CONSOLIDATED BALANCE SHEET AS AT SEPTEMBER 30, 1975

LIABILITIES

	1975	1974
CURRENT LIABILITIES		
Bank indebtedness (Note 4)	$1,619,000	$1,178,000
Accounts payable and accrued liabilities	983,000	1,148,000
Income taxes	—	89,000
9% Notes payable to officers and directors	—	76,000
Current maturities on long-term debt	264,000	283,000
	2,866,000	2,774,000
LONG-TERM DEBT (Note 4)	2,047,000	2,035,000
DEFERRED INCOME TAXES	869,000	835,000

SHAREHOLDERS' EQUITY

	1975	1974
CAPITAL STOCK (Note 5)		
Authorized 2,000,000 shares of no par value		
Issued 1,102,036 shares	2,113,000	2,113,000
RETAINED EARNINGS	2,393,000	2,002,000
	4,506,000	4,115,000
	$10,288,000	$9,759,000

NOTES TO 1975 CONSOLIDATED FINANCIAL STATEMENTS

1. CHANGE OF NAME

During the year the name of the company was changed from Oil Patch Industries Ltd. to O P I Ltd.

2. ACCOUNTING POLICIES

(a) Principles of Consolidation

The consolidated financial statements include the accounts of the company and its subsidiaries, all of which are wholly owned.

(b) Foreign Exchange

The accounts of the company's foreign subsidiaries have been translated to Canadian dollars on the following basis:

1. Current assets and current liabilities, at the rate of exchange in effect as at the balance sheet date.
2. Fixed assets, at the rate of exchange at the date of acquisition.
3. Long-term debt, at the rate of exchange in effect at which date the debt was incurred.
4. Revenue and expenses (except depreciation) at the average rate of exchange for the year.

(c) Valuation of Inventories

Raw materials and work-in-process are valued at the lower of cost and replacement cost. Finished goods are valued at the lower of cost and net realizable value.

(d) Depreciation

Depreciation has been provided in the accounts on the straight-line method at rates calculated to amortize the cost of the assets, less salvage value, over their estimated useful life. For certain rental equipment useful life is estimated productive hours.

(e) Income Taxes

The undistributed earnings of a foreign subsidiary which exports manufactured products are not taxable as long as they are reinvested indefinitely as prescribed by regulation. It is the intention of the management to adhere to the prescribed regulation. Accordingly taxes of $65,000 otherwise payable for 1975 have not been recorded.

3. PROPERTY, PLANT AND EQUIPMENT

	1975			1974
	COST	ACCUMULATED DEPRECIATION	NET	NET
Land and improvements	$ 201,000	$ 51,000	$ 150,000	$ 159,000
Buildings	1,465,000	293,000	1,172,000	1,054,000
Rental equipment	4,748,000	1,734,000	3,014,000	2,918,000
Shop equipment, furniture and fixtures	1,670,000	736,000	934,000	1,030,000
Automotive equipment	345,000	177,000	168,000	196,000
	$8,429,000	$2,991,000	$5,438,000	$5,357,000

4. LONG-TERM DEBT

	1975	1974
Bank term loan, interest at 2½% over prime bank rate	$1,633,000	$1,843,000
9% Mortgage on property	477,000	182,000
7½% Mortgage on property	83,000	115,000
Equipment finance contracts, secured	118,000	145,000
8½% Notes	—	33,000
	2,311,000	2,318,000
Current maturities	264,000	283,000
	$2,047,000	$2,035,000

Bank indebtedness, shown under current liabilities, and the bank term loan are secured by a general assignment of book debts, certain inventories and fixed and floating charge debentures.

The estimated principal payments required in the four years subsequent to 1976 are as follows:

1977 — $265,000	1979 — $271,000
1978 — $268,000	1980 — $247,000

5. CAPITAL STOCK

The company has reserved 50,000 shares under a plan enabling the company to issue convertible promissory notes to employees. At September 30, 1975, no promissory notes had been issued.

6. REMUNERATION OF DIRECTORS AND SENIOR OFFICERS

Remuneration paid during the year to directors and senior officers of the company and its subsidiaries totalled $197,000 (1974 — $228,000).

Thorne Riddell & Co.

CHARTERED ACCOUNTANTS

AUDITORS' REPORT

To The Shareholders of
O P I Ltd.

We have examined the consolidated balance sheet of O P I Ltd. and its subsidiaries as at September 30, 1975 and the consolidated statements of earnings and retained earnings and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at September 30, 1975 and the results of their operations and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Thorne Riddell & Co.

Edmonton, Alberta
December 16, 1975.

OPI LTD.

INTERIM CONSOLIDATED STATEMENT OF EARNINGS AND RETAINED EARNINGS

For the Six Month Period Ending March 31, 1975
(unaudited)

	Comparative	
	1975	1974
Income	$4,709,035.	$4,356,851.
Expenses		
Cost of Sales and other expenses	$3,599,415.	$3,166,250.
Interest on long term debt	208,696.	165,358.
Depreciation	518,710.	430,165.
	$4,326,821.	$3,761,773.
Operating profit	$ 382,214.	$ 595,078.
Provision for Income Tax		
Current	$ 127,553.	$ 240,521.
Deferred	11,516.	52,994.
	$ 139,069.	$ 293,515.
Net earnings from operations	$ 243,145.	$ 301,563.
Gain on fixed asset disposals	14,383.	48,048.
Retained earnings at beginning of year	2,002,363.	1,508,803.
Retained earnings at end of period	2,259,891.	1,858,414.
Net earnings (from operations) per share	22c	30c

OPI LTD.
P.O. BOX 4080 — EDMONTON, ALBERTA

OPI LTD.

EDMONTON
ALBERTA, CANADA

INTERIM REPORT

For the Six Month Period Ending March 31, 1975

TO OUR SHAREHOLDERS

Your company's volume of business increased slightly in the first half of the fiscal year, being $4,709,035. as opposed to $4,356,851. in the first half of the 1974 fiscal year. However due to the same conditions which affected earnings in the first quarter and which continued into January 1975, earnings from operations were only $243,145. or 22 cents per share. This compares with earnings of $301,563. or 30 cents per share in the first half of last year. Your Directors expect sales in the last half of our fiscal year to exceed those in the corresponding period last year. With the present geographical spread, your company is not as vulnerable to seasonal fluctuations as it was when it was totally dependent on Canada.

At the present time, over half of our sales volume and the bulk of our profit is being generated in the U.S.A. Although it is a little early to be definitive, recent changes in tax and other legislation there could well lead to a somewhat slower rate of activity in that country than we had expected. Our Canadian operations have been severely hampered by its slowdown in the deeper drilling activity but we are hopeful that some of the political roadblocks will be removed in the near future and that we will see increased development in Canada.

In the second quarter the Gist Pump Division was responsible for a larger percentage of volume and profit than had been anticipated. They continue to work on broadening their market approach.

Rental income is gradually growing in the Rocky Mountain area of the U.S.A. Income in Canada however is well below what it could be with a different political atmosphere.

Cougar Tool continues to do well in the Permian Basin and the Rocky Mountain area but it is being affected in the same manner as Rentals in Canada. They are continuing a program of upgrading their present line of tools and doing a good deal of research on potential new tools.

Pembina Meter has reached a new high in volume and profitability in the first six months and it is expected that this progress will continue.

The Centralizer Division in Odessa, Texas, with an improved sales effort has reached a level of business almost double that being done at the same time last year.

Respectfully submitted on
behalf of the board

F. N. Hughes
President

OPI LTD.

INTERIM CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

FOR SIX MONTH PERIOD Ending March 31, 1975
(unaudited)

	Comparative 1975	1974
Source of Funds		
Net earnings after taxes	$ 257,528	$ 349,611
Non cash charges:		
Depreciation	518,710	430,165
Accrued Charges	17,023	212,327
	$ 793,261	$ 992,103
Sale of Fixed Assets	135,100	204,100
Extraordinary items:		
Issue 180,000 shares from treasury	—	459,000
Bank loan	—	400,000
Mortgage for U.S. plant	305,923	—
	$1,234,284	$2,055,203
Application of Funds:		
Purchase fixed assets of Gist Oil Tool	$ —	$ 400,835
Reduction of long term debt	121,800	58,520
Purchase of fixed assets	970,737	1,040,250
	$1,092,537	$1,499,605
Increase in working capital	$ 141,747	$ 555,598
Working capital at end of year	1,317,928	1,284,741
Working capital at end of period	$1,459,675	$1,840,339